

Audit of commercial banks

2302. SHRI RAM KUMAR KASHYAP: Will the Minister of FINANCE be pleased to state:

(a) the details of guidelines issued by RBI concerning audit of commercial banks including their foreign branches;

(b) how many times the audit of Punjab National Bank (PNB) and overseas branches of all Indian commercial banks were carried out since 2011 to 2018 together with the details of irregularities, lapses and fraudulent transactions detected by the auditors in their audit;

(c) what are the guidelines regarding issue of Letter of Undertaking (LoU); and

(d) the details of complaints received by RBI against commercial banks during the last three years together with action taken on each complaint?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI SHIV PRATAP SHUKLA): (a) and (b) With regard to statutory audit, Reserve Bank of India (RBI) has informed that it has issued guidelines for appointment of Statutory Central Auditors (SCAs) and Statutory Branch Auditors in Public Sector Banks (PSBs), which covers the norms on eligibility, empanelment and selection as well as the procedure for appointment of such auditors. In case of Private Sector Banks and Foreign Banks operating in India, RBI *vide* its guidelines has specified the minimum standards required to be satisfied by audit firms for appointment as SCAs as well as aspects such as term of appointment, rest period, treatment of group of audit firms having common partners, maximum number of banks that an audit firm can undertake statutory audit assignment. In case of overseas branches of Scheduled Commercial Banks (SCBs), RBI has advised that statutory auditors have to be appointed for all the overseas branches every year. Further, RBI has also mandated the modalities and procedure for appointment of such auditors. In the case of PSBs having overseas branches, one-third are covered by rotation for quarterly/half-yearly review and audit is done through audit firms operating in the countries where the branches are functioning. Banks, including PNB, carry out audit in terms of these guidelines. As regards details of irregularities, lapses and fraudulent transactions detected by auditors in their audit, RBI has apprised that it does not have information in this regard.

With regard to concurrent audit, RBI has apprised that its guidelines to SCBs lay down the broad parameters for scope, coverage, types of activities to be covered, appointment of auditors etc. RBI has also mandated a Minimum Audit Programme in form of a checklist, while stipulating that the detailed scope of concurrent audit may be determined and approved by Audit Committee of the bank's Board of Directors.

With regard to internal audit, RBI has apprised that it has issued detailed guidelines on risk-based internal audit system in banks. These mandate banks to put in place well-defined policy, duly approved by their Board, for undertaking risk-based internal audit, and cover areas such as risk assessment process, scope and coverage of internal audit, performance evaluation, review of internal audit function, etc.

(c) RBI, *vide* circular dated 1.11.2004, conveyed general permission to banks authorised to deal in foreign exchange to issue LoUs in favour of overseas suppliers, banks and financial institutions, up to a specified transaction amount and period, for import of capital and non-capital goods, subject to RBI's prudential guidelines. RBI discontinued the practice of issuance of LoUs *vide* circular 13.3.2018.

(d) As per RBI data, the number of complaints against commercial banks pertaining to deficiencies in banking services, received in the offices of the Banking Ombudsmen of RBI was 1,02,894 for the financial year (FY) 2015-16, 1,30,987 for FY 2016-17, and 1,63,590 for FY 2017-18. RBI has further apprised that action has been taken on the complaints as per the provisions of RBI's Banking Ombudsman Scheme, 2006.

Recapitalisation to banking industry for financial reforms

2303. DR. SANJAY SINH: Will the Minister of FINANCE be pleased to state:

- (a) whether it is a fact that public sector banks are in consistent loss;
- (b) if so, the details thereof and the reasons therefor;
- (c) the proposal of Government on recapitalisation to banking industry for financial reforms therein; and
- (d) the present status and progress of moratorium process to PSBs thereof?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI SHIV PRATAP SHUKLA): (a) and (b) Public Sector Banks (PSBs) have consistently posted operating profits in recent years. As a result of Asset Quality Review (AQR) initiated in 2015 and subsequent transparent recognition by PSBs, stressed accounts were reclassified as Non-Performing Assets (NPAs). PSBs started cleaning up and expected losses on stressed loans, not provided for earlier under flexibility given to restructured loans, were provided for. Primarily as a result of provisioning requirements for continuing ageing provision for NPAs so recognised, six out of 21 PSBs have reported net loss in each of the last two financial years as well as the first quarter of 2018-19 (for which results have been declared by eight PSBs till 3.8.2018).